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COÖPERATION IN EXPORT TRADE

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Organized effort in any line generally succeeds over individual endeavor. Particularly is this true in the contest between nations for commercial supremacy. In highly competitive markets success is attained by the country whose forces of production are most efficiently organized, whose financial resources are capable of the quickest mobilization, and whose sales campaigns reflect intelligent collective effort.

The best example of national achievement resulting from intelligent coördination of efforts is that of Germany. Twenty-five years ago Germany set for herself the task of building up her foreign trade. Her economists saw clearly that national wealth and prosperity were the sure rewards of a successful foreign commerce; that selling to other nations, in return for their raw materials, the products of factory and workshop, meant a permanent income to Germany from the labor and skill of her citizens, and that the value added by the processes of manufacture gave to her either a call upon the gold supply of the world or the option of a credit which could be used in the purchase of foodstuffs or other raw materials. Germany went about the matter in a thoroughly scientific manner. An intensive investigation of the possibilities of the various markets of the world was begun. The characteristics, customs, manners and wants of her future customers were carefully studied in an endeavor to ascertain what goods were desired and those for which a demand could be created. There was to be no attempt to force upon people what they did not want.

Coöperative societies were organized for the advancement of export trade. Chambers of commerce, which were active bodies and not paper organizations, collected data and information for the benefit of all interested.

The government, keenly alive to the fact that commercial supremacy means national power and greatness, shaped its export policies along broad and constructive lines. Export trade needed

encouragement; consequently drawbacks and export bounties were provided. The merchant marine needed to be built up; subsidies were voted. Manufacturing towns distant from the ports were at a disadvantage in the matter of railroad rates; the rates were forthwith adjusted so as to encourage manufacturing for export. Foreign trade had to be financed. Branch banks, under liberal banking laws, were established and became active agencies for promoting trade in foreign countries. In order to safeguard the domestic market, a protective tariff was instituted. To assist the German manufacturer to compete with others efficiency methods became the subject of careful study, and when it was demonstrated that combination meant lessened waste, greater concentration of effort, and more effective production, combination was encouraged. Price agreements, to avoid wasteful competition at home and abroad, were recognized as necessary and made legal. If, in order to meet the competition of other nations in foreign markets, it was necessary to sell below the price prevailing in the domestic market, a public opinion was created which applauded such a course as entirely patriotic, in that the greater the sale of German products abroad the nearer would German manufacturing establishments approach capacity production, and capacity production was early realized by German efficiency experts as the best means of reducing economic waste in production and lowering the unit cost of the products.

Germany saw that successful cultivation of foreign markets must be based upon a thorough knowledge of foreign countries. She planned an educational system for her youth whereby they were taught commercial geography, the business languages, and the financial customs and manners of different peoples, and her young men were encouraged to go into different parts of the world as commercial missionaries to convert the consumer into a user of German goods.

The United States has been given by nature all of the resources necessary to build a great manufacturing nation. We have iron, timber and other building materials with which to construct factories and workshops. We have water power and coal in abundance. We raise in this country vast quantities of raw materials. Not only do we supply our own manufacturing establishments, but each year we export millions of dollars worth of such raw materials to other countries, and we have the power to increase indefi-

nately such production. With these advantages in our favor, the United States should become the greatest manufacturing nation of all times.

We have made great progress in recent years, and the percentage of increase in the export of manufactured articles was greater in the period of 1900 to 1912 than that of Great Britain or Germany, but if the figures for oil, steel products, refined copper and agricultural machinery be deducted, the remaining totals would not be encouraging.

A study of our export figures indicates that the greatest progress in the development of foreign fields has been made by reason of an intensive study of markets and an intelligent organization of sales forces on the part of great industrial corporations like The United States Steel Corporation, The International Harvester Company, The Standard Oil Company, and the selling companies representing the refined copper interests. What has been done in Germany on a national scale, through the coöperative efforts of all classes, with the encouragement of the government, has been accomplished by these large American corporations without government encouragement, and entirely as a result of the skill and ingenuity of the American sales manager with a large vision and a constructive imagination.

In the last few years, however, public opinion, if it has been correctly reflected in recent governmental action and in legislation, has decreed that large combinations of industrial units shall no longer exist, and that production shall be carried on by smaller units, actively competing with each other, irrespective of the economic waste resulting from competitive methods, the duplication of sales organizations, advertising and promotional expenses, and overhead costs in general.

We are in the midst of this period of disorganization of the forces of industry at the exact moment when there is presented to this nation an opportunity which will probably never again come in its history—an opportunity for introducing American goods in markets hitherto closed to this country. Admittedly, the tremendous power developed by great combinations of capital has been in numerous instances abused, and the economic value to the nation of highly organized instrumentalities of production has been lost sight of in the popular indignation aroused as a result of the exposure

of abuse of power, and the injury done by unfair practices to competitors. But we are too often extremists. Our tariff is either unreasonably high or ruinously low. We stubbornly refuse to adjust it scientifically through the agency of a board of experts. We permit our railroads and public service corporations a free rein, and when the abuses which such a policy fosters are brought home, we proceed to hamper their usefulness and to block their growth and development by the passage of unscientific restrictive laws, and by over-regulation on the part of many state commissions. Too often we seem to prefer to tear up by the roots rather than to use the pruning knife. And so in dealing with our trust problem we have refused to recognize the great advantages of concentration of effort in production, and the economies which come with efficient organization. We have been willing to sacrifice all this rather than to attempt, by intelligent, constructive legislation, to preserve that which is economically sound.

The Sherman Act forbids combinations in restraint of trade, or which would tend to restrict competition in foreign and domestic commerce. The recently enacted anti-trust acts do not change the terms of the Sherman Act, but have provided a Federal Trade Commission with very large inquisitorial powers, which, while not endowed with the functions of a court of last resort, nevertheless will have a large influence in determining the boundaries within which coöperative effort may safely be carried on.

The Commission, since its organization, has shown a keen interest in the subject of foreign trade, and, judging from the character of its membership, may be expected to do all within its power toward aiding in the development of constructive plans for building up our foreign commerce.

It is plain, from the experience of Germany and England, that material progress in the development of foreign commerce depends upon coöperative effort, not only between manufacturers, but between the government and those interested in foreign trade. Within the limits of the trust laws, the government has shown a most laudable coöperative spirit. The Department of Commerce is doing splendid work, and the present chief of the Bureau of Foreign and Domestic Commerce has built up an organization of experts who are giving real service to our manufacturers. The Treasury Department has applied itself to the study of the financial needs of the South

American countries, with the desire of being helpful, and is working along constructive lines.

There does not, however, seem to be that spirit of coöperation among manufacturers themselves which is necessary to the accomplishment of permanent results. This, to a large degree, no doubt, is due to the feeling of uncertainty existing in the minds of manufacturers as to the extent of the application of the Sherman Act to combinations engaged in foreign commerce. Some lawyers have held that the Sherman Act does not apply in foreign commerce; others have held that it does. While the process of unscrambling combinations is still going on, and so long as there is any doubt about their validity, there will be hesitancy about forming new combinations irrespective of their economic value.

A great deal has been said recently about the necessity of organizing combinations among industries interested in foreign trade if new foreign markets are to be successfully developed. There seems to be quite a general agreement that the Sherman Act should not apply to combinations organized for export trade. That the Administration itself recognizes the necessity for coöperative effort in opening new markets is indicated by the speech of the President of the United States before the Third Annual Meeting of the Chamber of Commerce of the United States, on February 3, 1915, when he said:

I want to know how coöperative methods can be conducted for the benefit of everybody who wants to use them, and I say frankly that if I can be shown that, I am for them. If I cannot be shown that, I am against them. I hasten to add that I hopefully expect that I can be shown that.

Congress will not meet again until next winter, and, therefore, legislation clarifying the situation by amending the Sherman Act so that it shall not apply to combinations in foreign trade cannot be expected for at least a year. In the meantime, opportunity, kept waiting at the closed door, may turn on its heels.

It would seem of vital importance that the best thought and study of those who are interested in the development of our foreign commerce should at this time be directed toward the finding of some temporary expedient, if possible, which will permit manufacturers in certain lines to combine in organizations for the study and development of new markets.

Opening new markets abroad costs money. Wasteful competi-

tion in such markets injures the American manufacturer, serves to discourage effort, and benefits only the foreign consumer and the foreign competitor. In its last analysis, unprofitable foreign trade is a burden upon the industry at home, whereas profitable export business results in a prosperity for the particular industry, in which capital and labor share, and which ultimately benefits the domestic consumer.

There are no restrictions in the Sherman Act against combination for the purpose of studying foreign markets, collecting and disseminating information, investigating efficiency methods in production, or against promoting in general the interests of the American manufacturer. Combinations under the Sherman Act are only illegal if they restrain or tend to stifle competition among the manufacturers of this country, whether the competition be in foreign or domestic business. Combinations for the doing of export business, which would result in the shutting out of other concerns from the foreign field as the result of a monopolistic scheme of organization, would probably be illegal under the Sherman Act as at present construed. And yet export trade, with its many difficulties and problems, requires such a concentration of resources and effort that the great benefits to be derived by the whole country from a large foreign commerce argue powerfully for the removal of all restrictions upon combinations in export trade.

Without wanting to be understood as favoring, under any circumstances, the retention of the provisions of the Sherman Act which so seriously handicap the development of export business, but realizing that while waiting for congressional action the manufacturers of this country are losing precious time in which should be begun preliminary foundation work of greatest importance in the upbuilding of our foreign business, I desire to suggest in brief outline, for your consideration, a concrete plan for the organization of export societies, which, in its essentials, would appear not to violate the prohibitions of the Sherman Act, when interpreted according to the "Rule of Reason."

Let there be organized under the laws of one of the states a corporation to be known, for example, as The American Drug Manufacturers Export Corporation, The American Coal Producers Export Association, or some similar title; the organization to be incorporated with sufficient capital stock to permit all of the members of

the industry throughout the country, or in certain cases those in a particular locality, who so desire, to become members upon exactly the same terms. Each producer desiring membership to subscribe to a definite amount of stock, his subscription being payable in equal instalments over a term of years; sufficient stock to be retained in the treasury to provide for those who might subsequently desire to become members upon equitable terms fair to the original members, each member to own exactly the same amount of stock.

The general scheme and method of operation, which will constitute the contract between the corporation and the members, as well as between the members themselves, will properly be embodied in the articles of association, and will be along the following lines:

1. The corporation is to be impartially organized in a manner fair to all its members, and the management selected with expert ability as the sole test.

2. Membership on the board of directors to be arranged so that in due course of time every member shall receive representation. To avoid possibility of unfair treatment, there will be provided a permanent arbitration committee, to be selected in an impartial manner, and to be made up of persons having no interest in the industry. To this committee shall be referred any questions in dispute, and its services may be invoked by any member.

3. Each member shall, at the beginning of the year, report to the export corporation the amount of its product available for export during the year, the conditions of delivery and of acceptance of orders, and the price at which it is willing to sell in a foreign market. These tenders may be changed from time to time, under such conditions as may be thought advisable, and special quotations of additional quantities may be named whenever desirable.

4. The sales force of the corporation will undertake the disposal of the exportable surplus of its members on the terms and conditions specified, obtaining the best price possible, making use of the export commission houses, the local representatives, the trained salesman and every agency of value in building up foreign trade. The difference between the price quoted and the price obtained shall belong to the export corporation as a profit, and upon all sales all members shall pay to the export corporation the same percentage as a commission.

5. Whenever a demand shall be found to exist in a particular

market for a certain quantity of goods which must be sold at a lower price than quoted by any of the members in order to meet foreign competition, all members shall be notified of the possible order, and given an opportunity to meet the foreign price. Competitive bids will be received, and the lowest bidder is to receive the order; or, if there are a number of low bidders, the order is to be divided.

6. All profits, after deducting all expenses, and setting aside such a sum as shall be deemed necessary for promotion, advertising, establishment of permanent quarters, etc., shall be distributed equally among the members.

7. The export corporation shall provide an expert who shall collect statistical data and information of value to the industry, which shall be distributed promptly, and under the same conditions, and in the same manner, to all members. The export corporation shall also have on its staff an efficiency engineer, who shall make intensive study of methods of production in the industry, cost of production, competitive margins, and the productive capacity of various plants. His services shall be available to any of the members for the purpose of giving advice as to the development of greater efficiency in production, diminishing the cost of production, or increasing the output. He shall also give to all members technical advice as to the best methods of meeting peculiar requirements of foreign markets.

8. The export corporation may also act as a purchasing agency for raw materials. Being able to purchase in large quantities, as a representative of many consumers in a given line, it will be able to buy in foreign markets at the lowest prices. All members will be entitled to the corporation's services in this respect upon the same terms.

It is, of course, not necessary to limit the membership in such an organization to particular lines. Groups of manufacturers in allied lines could profitably unite to form one export company which could conduct a sales campaign for all, as, for example; a drug manufacturers' export corporation might well include manufacturers of toilet articles, cosmetics, perfumes and bathroom accessories. Manufacturers of cottons, woolsens and silks might combine in one large textile export association.

In the scheme of organization outlined, competition is unrestricted among all the members of the corporation. Each member

fixes the price at which it will sell its product, and in effect tenders to the export corporation the disposal of a certain product at a certain price. If the price is too high, the product of a particular member remains unsold. When special opportunities are found in a particular market, all members are given a chance to bid for the business. Fair competition without favor is thus guaranteed to each of the members. The member with small resources and a minimum output is not placed at a disadvantage if he cannot meet the prices of the more powerful members of the group, because he will receive his share of the profits of the corporation, which will result, in a large degree, from the commission which each member, whose product is successfully sold, must pay.

The corporation cannot be said to restrain the trade of its members or those who are not members. Its benefits are open to all in the industry on the same basis. Its members are not obliged to sell exclusively to or through the corporation, and are thus free to develop trade for special brands, if they can do so better than through the corporation. The prohibitions of the Sherman Act, in regard to restraint of trade, are meant for the benefit of the American consumer and the American manufacturer, and neither the American consumer nor manufacturer can be injured by the operations of the corporation. Competition in domestic markets is not affected. If the American consumer is affected at all, it will be beneficially, because through the disposition of a large part of the output on the foreign field, American manufacturers will be able to approach nearer to capacity production, thereby bringing down the unit cost of the article manufactured, with a possible reduction in price, in the domestic market.

The greatest advantage to be derived from such an organization is the concentration of the resources of different manufacturers in the building of a thoroughly efficient, highly trained, sales organization, under skilled management, devoting all its energies to the development of foreign markets.

One of the greatest benefits to be gained from a thorough organization of our export activities would be unity of thought and action in dealing with some of the large problems connected with foreign commerce.

Experts representing various industries, working in conjunction, could accomplish much toward simplifying the mechanical

details of export trade. Greater uniformity in bills of lading, shipping documents, consular practices and fees, customs house regulations and port charges might be brought about by united effort. Better service could be exacted from steamship companies and with greater knowledge and closer attention to details the numerous delays, exactions, and fines in foreign customs houses, which are so exasperating to the importer and exporter, could, to a great extent, be avoided. To a body of experts of this character could be intrusted the investigations, if not the preliminary formulation of commercial treaties of the United States, which are of such importance in the development of reciprocal trade relations with foreign countries.

The idea of such an association may appear utopian to some, but practical Germany has demonstrated the value of intensive organization and concentration of effort in foreign commerce.

The above plan is put forth not as a finished scheme of organization which should be adopted without modification, but merely as a suggestion in broad outline, in the hope that by focusing attention upon a concrete proposition some definite results might be accomplished. If the scheme of such a coöperative export corporation or society, which is about the only form of legal combination possible under our existing laws, should prove to be impractical in its application to present conditions, that fact in itself should emphasize the immediate necessity of unshackling American business so as to permit freedom of action in the foreign field. On the other hand, if so reasonable a plan for coöperative action as that outlined be considered, in its fundamentals, as violating the provisions of the Sherman Act, then the absurdity of having such a law upon our statute books would appear to be clearly demonstrated.

Of course, it must be recognized that coöperation through the means of some legal form of combination is not essential or necessary to the development of foreign business in all lines, although in standardized lines where foreign competition is keen our manufacturers must have the right of organization if progress is to be made.

For the marketing of many products, the present export or commission house, with its thoroughly efficient organization, furnishes the best of facilities to the exporter, although even here an organization among various manufacturers, for the purpose of de-

veloping a market and carrying on a general publicity and sales campaign for the benefit of all, will prove valuable. Such a selling organization might arrange with the commission house to attend to all of the necessary details in the actual exportation of the goods.

In certain particular lines, too, where a manufacturer is interested in developing a market for a particular brand or design, there might be little advantage in combination with a competitor, except, perhaps, that there should be a clearly recognized right among such competitors to make binding agreements in regard to the extension of terms in foreign countries.

As indicating the necessity of our manufacturers being permitted to make agreements in the matter of the extension of credits, let me quote from a letter received from a large manufacturer a day or so ago. He says:

Of course, our principal trouble at the present time is with credits. We are limiting our dating to "90 days from date of invoice," and we have heard of some competitors who have given 120 days, but we have called their attention to the fact that if the various American manufacturers are going to sell terms in competition with one another, instead of merchandise, we shall all be losers in the long run, because the buyer in Buenos Aires will simply play one concern against the other to secure the longest dating.

The matter of credits, due to the difficulty in obtaining credit information concerning firms in foreign countries, is a serious obstacle to the growth of export business. The long time credit which has heretofore been customary in South American countries and Russia is violative of sound financial principles. A man should receive such time for the payment of his bills as will permit him to realize upon the sale of goods. When he has received the money from the sale of the goods, a part of it belongs to the merchant who sold him the goods and the rest is his profit. If he is allowed to keep that which does not belong to him for a further length of time, he will be tempted to speculate or at least to divert the money into other sources. Too long credits encourage over-stocking, over-extension and speculation. If, in the cultivation of new markets, American manufacturers, in order to get business, will be obliged to compete with each other in the extension of lengthy credits, and will be denied the right of agreement or coöperation in matters of this kind, the results in the long run are bound to prove disastrous.

Injurious competition between our manufacturers in foreign

markets will inevitably result in making the business for all unprofitable, forcing many out of the market in disgust, to the entire satisfaction of our foreign competitors, who derive profit and enjoyment from our attempts to destroy one another in internecine industrial warfare.

It cannot be denied that in the scheme for an export corporation as outlined, there are opportunities for abuses and the growth of practices which may be injurious to some of the members. By the appointment of a permanent arbitration committee, one of whom might very properly be a member of the Federal Trade Commission, any member who felt himself discriminated against, or unfairly treated, could obtain redress. The Federal Trade Commission, too, has power under the law to correct such abuses upon complaint. The important thing is to find some plan of coöperative effort, which is fundamentally legal and at the same time practical; some plan which can be availed of by our manufacturers without danger of criminal prosecution, until such time as the law shall have been changed.

The smaller manufacturer, of necessity, has become interested in the subject of developing export trade. In many instances he cannot afford the cost of a promotion campaign in a foreign market. The very prohibitions of the Sherman Act which are designed to give him an equal opportunity operate to put him at a disadvantage with the larger manufacturer capable of maintaining an effective sales organization in foreign lands.

By combining the resources of manufacturers in a given line, a highly trained and efficient organization can be developed, operating at a minimum expense, which can scientifically study the markets of the world, disseminate information for the benefit of all and conduct comprehensive sales campaigns along educational lines, which will be sure to bring favorable results.

The possibilities of our commercial future carry a striking appeal even to the ordinary imagination. Whether the great opportunity in the nation's history will be taken advantage of in full measure, to the lasting benefit of the whole people, will depend upon the education of our people to the value to this country of export trade; upon the development of a genuine spirit of coöperation among our manufacturers in the intensive study of the possibilities of new markets; upon the patience, skill and tact which are exercised

in the cultivation of the foreign field; upon the building up of a public opinion which will compel the removal of the fetters from legitimate business; and, of most importance, upon the assumption of leadership in this movement by men of broad vision, untiring energy and unselfish devotion.